

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 93-636-W/S - ORDER NO. 95-1330 ✓
JULY 12, 1995

IN RE:	Application of Blue Ribbon Water Corp.)	ORDER APPROVING
	for Approval of the Acquisition of)	ACQUISITIONS,
	Certain Systems, an Extension of)	EXTENSION OF
	Service Area, and General Increase in)	SERVICE AREA,
	Water and Sewer Rates and Charges.)	AND INCREASE IN
)	RATES AND CHARGES

I.
INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("the Commission") on the Application of Blue Ribbon Water Corp. ("Blue Ribbon" or "the Company") for approval of the acquisition of certain systems, for approval of an extension of its existing service area, and for approval of a new schedule of rates and charges for water and sewer service. Blue Ribbon submitted its Application on January 13, 1995. The Application was filed pursuant to S.C. Code Ann. §58-5-240 (1976), as amended, and S.C. Code Regs. 103-821 (1976).

By letter dated January 31, 1995, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the

appropriate pleadings. The Company was also required to furnish, by U.S. Mail, the Notice of Filing to each customer affected by the Application. The Company furnished affidavits demonstrating that the notice had been duly published and certified that a copy of the notice had been mailed to each customer affected by the Application. Petitions to Intervene were received from the Consumer Advocate for the State of South Carolina ("the Consumer Advocate"); Bruce S. Potts; Billy and Faye Miles; Philip N. Foss; Earnest Sisk; Jan Campbell; Dave and Lillie Williams; Barbara Wittbrodt; George and Naomi MacNutt; Raymond D. Corn; Douglas O. Jones; Robert A. Pyle; and Thomas C. Lewis. The Commission also received numerous letters of protest.

By its Application, Blue Ribbon seeks to acquire the assets and operations of several utility systems located in York County, South Carolina and to consolidate those systems with the existing systems which Blue Ribbon operates subject to Commission jurisdiction. Blue Ribbon seeks to acquire the assets and operations of York County Utilities, Crest Water Company, Inc., Spring Lakes Estates Water Systems, and Suburban Water Company. Blue Ribbon also requests an extension of its service area to serve the Brown Borough Subdivision and Mallard Lakes Subdivision. Additionally, Blue Ribbon requests approval of a schedule of uniform rates and charges for its system. Blue Ribbon's schedule of uniform rates and charges results in an increase in rates and charges for the services provided to some of the customers of the affected utility systems and results in the establishment of rates and charges for services provided to customers of other affected

systems.

According to Blue Ribbon's Application, the proposed rates and charges would increase the Company's water revenue by approximately \$325,380, or 84%, and sewer revenue by approximately \$53,431, or 72.91%. Staff calculated that the proposed rates and charges would increase the Company's water revenue by approximately \$375,521, or 101.03%, and sewer revenue by \$55,815, or 75.66%.

The Commission Staff ("the Staff") made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted discovery in the proceeding involving Blue Ribbon's Application.

A public night hearing relative to the matters asserted in the Company's Application was commenced on May 1, 1995, at 7:00 p.m. in the Fort Mill High School Auditorium in York County, South Carolina. The hearing continued in the Commission's Hearing Room at 111 Doctor's Circle in Columbia on May 10, 1995, at 10:30 a.m. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1994), a panel of three (3) members of the Commission was designated to hear and rule on this matter. The panel consisted of Commissioner Bowers, presiding, and Commissioners Arthur and Saunders. During the proceedings, Robert T. Bockman, Esquire, represented Blue Ribbon; Philip S. Porter, Esquire, and Elliott F. Elam, Jr., Esquire, represented the Consumer Advocate; and Florence P. Belser, Staff Counsel, represented the Commission Staff. Intervenor Philip N. Foss, Raymond D. Corn, Douglas O. Jones, Robert A. Pyle, and Thomas C. Lewis appeared pro se. Other Intervenor appeared and offered

testimony at either the night hearing in Fort Mill or the hearing in Columbia.

Blue Ribbon presented the testimony of William D. Hopper, President of Blue Ribbon; Cason Maccubbin, Certified Public Accountant; and Joe Farris, Jr., District Engineer for the South Carolina Department of Health and Environmental Control (DHEC). The Consumer Advocate presented Philip E. Miller of J.W. Wilson & Associates, Inc. to testify as to its recommendations. The Commission Staff presented Curtis Price, Utilities Accountant, and Robert W. Burgess, Rate Analyst of the Commission's Water and Wastewater Department, to report Staff's findings and recommendations. Approximately thirty-four (34) public witnesses, representing various subdivisions affected by Blue Ribbon's Application, testified at the night hearing, and nine (9) public witnesses testified at the hearing in Columbia.

II. FINDINGS OF FACT

Based on the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceeding, the Commission now makes the following findings of fact:

1. Blue Ribbon is a water and sewer utility providing water and sewer service for compensation in its service area within South Carolina, and therefore, Blue Ribbon is a "public utility" whose operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.

2. Blue Ribbon wishes to purchase the assets and operations of York County Utilities, Crest Water Company, Inc., Spring Lakes Estates Water Systems, and Suburban Water Company. Blue Ribbon also seeks to extend its service area into the Mallard Lakes Subdivision and Brown Borough Subdivision.

3. Blue Ribbon is currently maintaining and managing the water and sewer systems which it seeks to acquire, and Blue Ribbon has begun repairs, maintenance, and upgrades to these systems.

4. The appropriate test period for the purposes of this proceeding is the twelve month period ending October 31, 1994.

5. By its Application, Blue Ribbon is seeking an increase in its rates and charges for water and sewer service which it calculates to be \$378,811. Staff has calculated the increase to be \$431,336.

6. The appropriate operating revenues for the Company for the test year under present rates and after accounting and pro forma adjustments are \$445,466, which reflects a reduction in per book revenues.

7. The appropriate operating revenues under the approved rates are \$630,406, which reflects a net authorized increase in operating revenues of \$184,940.

8. The appropriate operating expenses for the Company's operations for the test year under its present rates and after accounting and pro forma adjustments are \$523,971, which reflects a decrease in per book expenses of (\$32,065).

9. The appropriate operating expenses under the approved rates are \$544,578.

10. The Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 34% federal tax rate and a 5.0% state tax rate, respectively.

11. For the test year, the Company's net operating income for return after accounting and pro forma adjustments is (\$78,505).

12. The appropriate net income for return under the rates approved and after all accounting and pro forma adjustments is \$86,436.

13. A year end, original cost rate base of \$557,673 consisting of the components set forth in Table B of this Order, should be adopted.

14. The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

15. A fair operating margin that the Company should have the opportunity to earn is 10.12% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

16. The rate designs and rate schedules approved herein by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

17. The rates and charges depicted in Appendix A, attached hereto and incorporated herein by reference, are approved and effective for service rendered on or after the date of this Order.

18. The Commission will not require the Company to make refunds for service rendered in subdivisions which were billed under unapproved contracts on unapproved rates.

III.
EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1.

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the Docket files of the Commission and of which the Commission takes judicial notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which are involved are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings of fact are included in the testimony of William Hopper. Mr. Hopper testified that Blue Ribbon has engaged in a program to improve the maintenance of facilities under Blue Ribbon's management. Mr. Hopper described how Blue Ribbon had replaced or repaired all of the compressors used for increasing pressure on the Crest system, repaired leaking and waterlogged tanks, repaired leaks on the system, replaced water meters, and replaced some well pumps. Mr. Hopper also testified that Blue Ribbon had installed new radio control mechanisms on the wells in those subdivisions in which there are multiple wells. Mr. Hopper displayed one of the radio control mechanisms to the Commission and explained how he designed the radio control mechanism in order to save costs for the Company. Mr. Hopper stated that the radio control devices should balance the output of multiple wells and should reduce low pressure problems which have been experienced in the past.

Mr. Hopper also testified that Blue Ribbon has begun a program to upgrade the systems to comply with regulatory and environmental requirements. Mr. Hopper also explained that that the Company has completed a program to upgrade all facilities necessary to treat water and under that program that the Company installed some new pumps, drums, and well houses at various locations throughout the system.

Mr. Hopper also described an "advisory board" which he plans to establish for Blue Ribbon. This advisory board is to be made up of customers of the Company with representation from the various subdivisions on the Blue Ribbon system.

Several of the customer Intervenor and public witnesses testified in opposition to Blue Ribbon acquiring these other utilities and water systems. The customer opposition was strongly against the proposed rate increase. Additionally, several customers cited poor maintenance and poor response to maintenance requests, quality of water, and pressure problems as reasons for their opposition to the acquisition. Several of the customers stated that they believed that Blue Ribbon should make a fair and reasonable profit, but opposed the requested rate increase saying that the requested increase is exorbitant.

Upon weighing all the testimony and evidence, the Commission finds that the acquisitions and extensions of service area requested by Blue Ribbon should be approved. Blue Ribbon is operating and maintaining these systems and has already begun repairs and maintenance of the systems. Furthermore, the Company realizes that it needs to improve its public relations with the

customers and to inform the customers of what is happening with their water and sewer service. The Commission is sympathetic to the concerns of the residents being served by Blue Ribbon and these other systems, but the Commission sees no reason why these acquisitions and extensions of service area should not be consummated. Blue Ribbon is an established utility in York County and is providing service to approximately 1,703 water customers and 360 sewer customers in various subdivisions in York and Lancaster Counties. Furthermore, the utilities presently serving some of these customers apparently desire to discontinue their utility service as Blue Ribbon is already managing the systems and has arranged for the acquisition of these systems. Blue Ribbon is willing to take on the service responsibilities for these customers where the current utilities desire to end their service responsibilities.

The Commission determines that public convenience and necessity requires approval of the proposed acquisitions and that Blue Ribbon will provide adequate service to the customers currently served by York County Utilities, Crest Water Company, Inc., Spring Lakes Estates Water System, and Suburban Water Company. The Commission also finds that the public interest requires that Blue Ribbon's service area should be enlarged to include Mallard Lakes Subdivision and Brown Borough Subdivision. Therefore, the Commission concludes that acquisitions and extensions of service area requested by Blue Ribbon should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 AND 5.

The evidence for these findings concerning the test period and the amount of revenue increase requested by the Company is contained in the Application filed by the Company and the testimony and exhibits filed by the Company's witnesses.

On January 13, 1995, the Company filed a revised Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$378,811. Staff, using the appropriate billing units, computed the increase in gross revenues to be \$431,336. The Company's filing was based on a test year consisting of the twelve (12) months ending October 31, 1994. The Commission Staff and the other parties of record likewise offered their evidence generally within the context of the same test period.

A fundamental principle of the ratemaking process is the establishment of a test year period. Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses, and investments. Parker v. South Carolina Public Service Commission, et al., 280 S.C. 310, 313 S.E.2d 290 (1984). Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately

their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. Where an expense is significantly larger during the test year than the preceding year, it is incumbent upon the Commission to determine whether the expense reasonably projects future expenses. Hamm v. Public Service Commission of South Carolina, ___ S.C. ___, 422 S.E.2d 110 (1992). The Commission finds the twelve month period ending October 31, 1994, to be the reasonable period in which to make its ratemaking determinations herein.

According to the Application, the requested rate increase amounts to \$378,811. Staff witness Burgess testified that Staff calculated the amount of the proposed increase to be \$431,336. (See, Hearing Exhibit 10, p. 7).

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6 AND 7.

The evidence for the findings concerning adjusted level of operating revenues is found in the testimony and exhibits of Company witness Maccubbin and Staff witness Burgess. (See, Hearing Exhibits Nos. 7 and 10). The Company proposed to reduce test year revenues by (\$28,456) in order to eliminate unmetered customer revenues. Staff proposed an adjustment of (\$15,189) to normalize operating revenues. Mr. Burgess testified that Staff recalculated revenues using appropriate billing units. Mr. Burgess stated a computer error resulted in some erroneous bills and that in some instances the Company charged some unapproved rates. Because of the computer error, Mr. Burgess stated that he recalculated all of the bills during the test year to arrive at Staff's operating revenues figure. Consumer Advocate witness Miller offered no

actual adjustment numbers but expressed the opinion that the Company's test year revenues were understated.

The Commission concludes that level of operating revenues as reported by Staff is the appropriate level of operating revenues to be used in this proceeding. The computer errors and the charging of unapproved rates led the Commission to accept Staff's level of operating revenues for this proceeding. Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under present rates and after accounting and pro forma adjustments are \$445,466 which reflects a (\$15,189) decrease in revenues. Using the Commission's Finding of Fact No. 14 and the Evidence and Conclusions associated with Finding of Fact No. 14, infra, approving a 10.12% operating margin, the Company's operating revenues after the approved increase are \$630,406 resulting in a net authorized increase of \$184,940.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 8, 9, AND 10.

Certain adjustments affecting the expenses of the Company were included in the testimony offered by Company witness Maccubbin, Consumer Advocate witness Miller, and Staff witnesses Price and Burgess. (See, Hearing Exhibits Nos. 7, 8, 9, and 10.) This Order will address and detail only those accounting and pro forma adjustments which differed between the Company, the Consumer Advocate, and the Staff.

Salaries and Wages

In its Application, the Company proposed an increase in salaries and wages of \$71,216. The Company's adjustment allocated \$56,000 to the water operations and \$15,216 to sewer operations.

Part of this proposed increase in salaries and wages was for hiring two additional water operations personnel, and part of the increase was to increase the salary of Mr. Hopper.

Staff proposed an adjustment of (\$162). Staff's adjustment apportioned \$2,261 to the water operations and (\$2,423) to sewer operations for an overall adjustment of (\$162). In reaching its adjustment, Staff used the latest payroll available at the time of its audit. At the time of Staff's audit, and even at the time of the hearing, the two additional operations personnel had not been hired by the Company. Staff eliminated the salaries of those personnel as not meeting the "known and measurable" standard. Staff's adjustment also included a salary of \$60,000 for Mr. Hopper and eliminated \$15,000 in test year management fees.

The Consumer Advocate proposed an adjustment of (\$41,813). The Consumer Advocate's adjustment eliminated the salary of the two additional water operations personnel and allowed a salary of \$30,000 for Mr. Hopper.

The Commission finds that Staff's adjustment is reasonable in this case and adopts Staff's adjustment. The Commission finds that the salaries for the two additional personnel are speculative and do not meet the known and measurable standard. Those two positions are not filled, and it is not known when or if those positions will be filled. The Commission further finds that the \$60,000 salary to Mr. Hopper is reasonable.

Pension Costs

The Company proposed to establish a pension plan for its employees and included an adjustment of \$7,393. Staff and the

Consumer Advocate eliminated the pension plan from the rate case because the Company had not established the pension plan or set any funds for its implementation.

The Commission adopts the adjustment of the Staff and the Consumer Advocate. The Commission finds that the Company's proposed adjustment regarding an employee pension plan is speculative and does not meet the "known and measurable standard" which would allow inclusion of this adjustment for ratemaking purposes.

Chemicals

Both the Company and the Staff proposed to adjust chemical expenses. The Company proposed an adjustment of \$21,120 which reflected anticipated expenses. Staff included \$10,405 in operating and maintenance expenses for chemicals which was based on the numbers furnished by the Company during the course of Staff's audit. The Consumer Advocate recommended rejecting the Company's adjustment as being speculative and not meeting the known and measurable standard. The Commission finds Staff's adjustment appropriate and hereby adopts same. The Commission finds that Staff's adjustment properly reflects the known and measurable expenses of the Company that are allowed for ratemaking purposes.

Building Rent

The Company proposed an adjustment of (\$12,753) to remove building rent for its headquarters based on expectations that the Company proposes to buy or build its own facility. Staff did not make such an adjustment because Staff is of the opinion that the Company has not yet done enough to meet the known and measurable

standard. While the Company has passed a Board of Directors' resolution and signed an agreement to purchase an office, shop, and property in Rock Hill, the agreement is conditional upon the Company obtaining financing. As of the date of Staff's audit as well as the date of the hearing, the Company had not received financing. The Consumer Advocate also removed the Company's adjustment since the Company will continue to pay rent until a new facility is completed.

The Commission adopts Staff's position regarding the building rent. The Commission believes that the Company has not met a known and measurable standard on this adjustment as the Company has not demonstrated with any degree of certainty when, or if, its intended new facility will be available.

Rate Case Expenditures

The Company proposed to reduce operating and maintenance expenses by (\$1,347) to reflect amortization of rate case expenses associated with this rate case over a three (3) year period. Staff proposed an adjustment of (\$1,542) to reflect amortization of rate case expenses over a three (3) year period. Staff's adjustment was based on bills provided to Staff by the Company.

The Commission finds Staff's adjustment reasonable and hereby adopts same. The adjustment is known and measurable at the time of Staff's audit as it was verified by Staff to invoices supplied concerning this rate case.

Depreciation

The Company proposed to increase depreciation expense by \$15,227 for expected purchases of a building, roads, pump houses,

truck, backhoe, and chemical feeders. Additionally, the Company computed depreciation on the accelerated, income tax basis. Staff's adjustment recomputed depreciation of existing plant using NARUC guidelines and proposed an adjustment of (\$21,514). The Consumer Advocate proposed an adjustment of (\$28,533).

Staff also proposed adjustments to depreciation expense to match adjustments made to rate base. These adjustments are a (\$135) reduction to depreciation expense associated with removing an acquisition adjustment, and a (\$732) reduction to depreciation expense in connection with the amortization of accumulated tap fees.

The Commission finds Staff's adjustments to be appropriate and hereby adopts same. Staff's adjustment is based on known and measurable plant using accepted regulatory methods while the Company's adjustment is based upon depreciation used for federal tax purposes and includes assets not presently owned by the Company. The Commission also accepts Staff's adjustments related to the reductions in rate base as these reductions are a match for the adjustments to rate base which are discussed below.

Materials and Supplies

Staff proposed to adjust operations and maintenance expenses by (\$1,263) for items purchased during the test year that existed in inventory at October 31, 1994. Staff also made a corresponding adjustment to rate base for these materials and supplies. The Consumer Advocate proposed to normalize the test year materials and supplies expenses by averaging the expenses incurred over the last two accounting periods. The Consumer Advocate's proposal results

in an adjustment of \$17,525.

The Commission adopts Staff's adjustment. The Commission believes that these expenses should not be included in test year expenses but should in fact be capitalized.

Reclassification

Staff proposed an adjustment of (\$286) for the reclassification of certain items for ratemaking purposes. This includes reducing expenses for such items as flowers and tax penalties. The Commission adopts Staff's adjustment as such items as flowers and tax penalties are not proper expenses for ratemaking purposes.

Accumulated Tap Fees and Amortization

Staff proposed an adjustment regarding accumulated tap fees. The Company has, throughout its life, collected tap fees from its customers. By their nature, these tap fees are unpredictable and nonrecurring. As in the previous rate case concerning this Company in Docket No. 89-594-W/S, Staff has proposed that the tap fees be accumulated, amortized against depreciation expense as a contra, and the amortized balance used as a reduction of rate base. In this case, Staff has calculated a combined amortization of (\$732) and a residual net balance of (\$13,374).

The Commission adopts Staff's adjustments as it would be improper to allow the Company to earn a return on expenses for which the Company has already collected.

Transportation Expenses

The Consumer Advocate proposed an adjustment of (\$9,819) to reduce expenses associated with transportation expenses. The

Consumer Advocate witness stated that costs increased significantly during the test year from the prior year and suggested that the 1994 transportation costs be averaged with the 1993 transportation costs. Neither the Company nor the Staff proposed an adjustment to transportation expenses. Mr. Hopper testified that the Company operates in thirty-five (35) subdivisions in York County. Staff witness Burgess testimony reveals that the subdivisions which are served by Blue Ribbon are scattered over a 235 mile route.

Based on the evidence, the Commission concludes that the test year level of transportation expenses reasonably projects future expenses of the Company. The Commission therefore declines to adopt the Consumer Advocate's adjustment.

Customer Growth

Staff proposed an adjustment to record the effects of customer growth. Neither the Company nor the Consumer Advocate proposed an adjustment for customer growth. Staff used a growth factor based on the formula as previously approved by this Commission to calculate customer growth. Staff's formula is applied to net operating income and assumes an equal contribution for each customer added to the system. The Commission accepts Staff's adjustment and finds the appropriate amount of customer growth to be \$608.

The Commission will hereby adjust general taxes, and state and federal income taxes to reflect all adjustments approved herein. All accounting and pro forma adjustments proposed by the Staff and not objected to by any other party are hereby approved. All other adjustments proposed by any party inconsistent therewith have been

reviewed by the Commission and found to be unreasonable or inappropriate for ratemaking purposes and are hereby denied.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 11 AND 12.

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, and the Commission's determination as to the appropriate level of revenues and expenses (See, Findings of Fact Nos. 6, 7, and 8 and the corresponding Evidence and Conclusions), net income for return is found by the Commission as illustrated in the following Table:

TABLE A
NET INCOME FOR RETURN

BEFORE RATE INCREASE	
Operating Revenues	\$445,466
Operating Expenses	523,971
Net Operating Income	(\$78,505)
Interest During Construction	0
Customer Growth	0
Net Income for Return	<u>(\$78,505)</u>
AFTER RATE INCREASE	
Operating Revenue	\$630,406
Operating Expenses	544,578
Net Operating Income	85,828
Interest During Construction	0
Customer Growth	608
Net Income for Return	<u>86,436</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13.

The evidence supporting the findings concerning proper items and adjustments to the Company's rate base can be found in the exhibits and testimony of Company witness Maccubbin, Consumer Advocate witness Miller, and Staff witnesses Burgess and Price. The rate base, as allocated to the Company's operations, is composed of the value of the Company's property used and useful in

providing water and sewer service to the public, plus materials and supplies, an allowance for cash working capital, less accumulated depreciation, accumulated deferred income taxes (liberalized depreciation), contributions in aid of construction, plant acquisition adjustments, cost in excess of book values and customer deposits.

Prior to the hearing date, the Staff conducted an audit and examination of the Company's books and records, including rate base items. On the basis of this audit and the exhibits and testimony contained in the entire record of the hearing, the Commission can determine and find proper balances for the components of the Company's rate base and other items. Neither the Company nor the Consumer Advocate proposed adjustments to the Company's rate base. Staff proposed several adjustments to rate base. The Commission's determinations relative to the Company's rate base for its water and sewer operations appear in the paragraphs below.

Accumulated Depreciation

In determining proper rate base for utilities, the Commission has consistently applied a methodology which reduces the figure for gross plant used and useful in providing public service by a reserve for depreciation and amortization. This reserve for depreciation and amortization for Blue Ribbon's operations reflected a "per books" figure of \$388,624.

Staff proposed a net (\$92,115) adjustment to rate base to account for the recalculation of depreciation based on the NARUC guidelines. The Commission adopts Staff's adjustment as the Commission believes that a water and sewer utility should compute

depreciation using the NARUC guidelines instead of the accelerated income tax basis. As the Commission accepted Staff's adjustment to expenses to change depreciation to the NARUC guidelines instead of using the accelerated income tax basis the Company had booked, the Commission finds that a corresponding adjustment should be made to rate base. This adjustment to accumulated depreciation will correct the method of determining depreciation for the Company.

Staff also proposed an adjustment to accumulated depreciation of (\$135) which is associated with the acquisition adjustment discussed below. The Commission also adopts this adjustment.

Staff also proposed an adjustment to accumulated depreciation which corresponds to Staff's adjustment for Accumulated Tap Fees. Staff's adjustment is \$4,226 which the Commission accepts as discussed below.

With the expense adjustments previously approved and the rate base adjustments approved herein, the Commission is of the opinion, and so finds, that the Company's per book reserve for depreciation and amortization should be decreased (\$88,024). Consequently, the reserve for depreciation and amortization to be used for ratemaking purposes in this proceeding is \$300,600.

Acquisition Adjustment

Staff also proposed a net adjustment of (\$6,615) to remove the Farm Pond Utilities acquisition from rate base. The Company booked the cost of acquiring the Farm Pond Utilities to rate base. Staff removed this adjustment from the Company's rate base.

The Commission adopts Staff's adjustment. As acquisition of Farm Pond Utilities had not been approved by the Commission at the

time of the audit or during the test year, the Commission finds that the acquisition should not be included in the test year rate base. Staff's adjustment reduces plant by (\$6,750) and accumulated depreciation by (\$135) for a net adjustment of (\$6,615).

Materials and Supplies Inventory

Staff proposed to increase rate base by \$1,263 for materials and supplies which were in inventory during the test year. The Commission approved the Staff's adjustment which reduced expenses for this amount for these material and supplies which were present in inventory. The Commission adopts this corresponding adjustment to match the reduction of expenses. The Commission believes that this amount should be inventoried rather than expensed.

Accumulated Tap Fees

Staff proposes an adjustment to reduce rate base to account for net accumulated tap fees which are not accounted for as income. The Commission has previously discussed these tap fees, their amortization, and their rate base treatment in the "Evidence and Conclusions for Findings of Fact Nos. 8, 9, and 10."

Accumulated Deferred Income Tax

Staff has computed State and Federal Income Taxes on the net income as included in Staff's report. Staff also has computed that portion of those taxes which are not currently due and payable due to the differences in depreciation allowed for tax purposes. This difference has been used by Staff as a reduction in rate base. The Commission agrees with Staff, and an adjustment of (\$6,181) is required as these funds represent an expense for which funds need not be currently expended.

Cash Working Capital

Staff proposed to adjust rate base for a cash working capital allowance of \$58,695. The Commission adopts Staff's adjustment. By permitting a cash working capital allowance, the Commission acknowledges the requirement for the maintaining of cash reserves related to the routine operations of the utility.

The Company's rate base, as herein adjusted and determined by the Commission to be appropriate for the purposes of this proceeding, is set forth as follows:

TABLE B
ORIGINAL COST RATE BASE
OCTOBER 31, 1994

Gross Plant in Service	\$804,496
Accumulated Depreciation	<u>300,600</u>
Net Plant in Service	503,896
Materials and Supplies	1,263
Working Capital Allowance	58,695
Accumulated Deferred Income Taxes	<u>(6,181)</u>
 TOTAL RATE BASE	 <u>\$557,673</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 14 AND 15.

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As noted by the United States Supreme Court in the Hope Natural Gas decision, supra, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, by employing fair and enlightened judgment and giving consideration to all relevant

facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and ... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann. §58-5-240 (Cum. Supp. 1994) nor any other statute prescribes a particular method to be used by the Commission to determine the lawfulness of rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses and revenues in an historic test period because such an examination provides a constant and reliable basis upon which calculation can be made to formulate the basis for determining just and reasonable rates.

The Commission may decide to use the operating ratio and/or operating margin as guides in determining just and reasonable rates for a water and sewer utility instead of examining a utility's return on rate base. The operating ratio is a percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and in the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.

2d 257 (1984). Further, the Commission finds that its use of the operating margin in determining the lawfulness of proposed rates for water and sewer utilities has resulted in fair rates to both utilities and ratepayers.

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year:

TABLE C

Operating Revenues	\$445,466
Operating Expenses	<u>523,971</u>
Net Operating Income (Loss)	(78,505)
Add: Customer Growth	<u>0</u>
Total Income for Return (Loss)	<u>(78,505)</u>
Operating Margin - After Interest (Loss)	(22.78%)

The following Table shows the effect of the Company's proposed rate schedule, after accounting and pro forma adjustments approved herein :

TABLE D

Operating Revenues	\$ 876,802
Operating Expenses	<u>648,511</u>
Net Operating Income (Loss)	228,291
Add: Customer Growth	<u>1,483</u>
Total Income for Return (Loss)	<u>229,774</u>
Operating Margin - After Interest (Loss)	23.63%

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interests of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this

proceeding: the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Company presented the testimonies of witnesses Hopper and Maccubbin who provided information concerning the capital improvements to the Company's systems, the increasing costs of complying with regulatory and environmental requirements, as well as the Company's efforts in being more responsive to customer complaints.

The Commission is aware of the number of public witnesses testifying in opposition to the rate increase. Most witnesses opposed the amount of the increase while others testified they were dissatisfied with their quality of service and felt such an increase was undeserved. With this opposition in mind and in

recognizing the current state of the economy, the Commission has considered the impact of the proposed increase on the ratepayers of the Company.

The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its investment, while providing adequate water and sewerage service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers.

Upon this determination it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price for which the Company's service is rendered and the quality of that service. The Commission finds that the Company has expended a considerable amount to improve and upgrade the water and sewerage system so that its customers may continue to receive adequate service. The Commission finds that while the proposed level of revenues and corresponding rates and charges are unreasonable, the level of revenues determined to be reasonable results from the Company's efforts in making capital investments in the system, in complying with increasing regulatory standards, and in trying to improve the quality of its product and service. In light of those factors as previously discussed and based upon the record on the instant proceeding, the Commission concludes that a

fair operating margin that the Company should have an opportunity to earn is 10.12%, which requires annual operating revenues of \$630,406. The following Table reflects an operating margin of 10.12%:

TABLE E

Operating Revenues	\$ 630,406
Operating Expenses	<u>544,578</u>
Net Operating Income	85,828
Add: Customer Growth	<u>608</u>
Total Income for Return	<u><u>86,436</u></u>
Operating Margin (After Interest)	10.12%

While the Commission is aware of the impact on the customers of granting additional annual revenues in the amount of \$184,940, the Company has provided justification for such an increase, and the Commission concludes that the schedule of rates and charges approved herein depict just and reasonable rates.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 16 AND 17.

The Commission will spread the increase among the various services offered by the Company in the following manner:

Water

Blue Ribbon is currently charging \$6.50 per month for its basic facilities charge (BFC) and \$2.50 per 1,000 gallons as a commodity charge for service its presently approved service area. The customers in Crest Water Co. in the Wintercrest Subdivision pay a basic facility charge (including 3,000 gallons of usage) of \$6.00 per month with a commodity charge of \$0.60 per 1,000 gallons over 3,000 gallons. Crest customers in the Woodbridge Subdivision are charged a flat rate of \$10.00 per month. All other Crest customers are charged a basic facilities charge of \$7.00 per month (including

3,000 gallons of usage) plus a commodity charge of \$0.75 per 1,000 gallons over 3,000 gallons. Customers of Suburban Water Co. are charged a basic facilities charge of \$6.00 per month and a commodity charge of \$2.00 per 1,000 gallons. The customers of Springlake Estates Water System are charged a flat rate of \$35.00 per month under an unapproved contract.

The Company proposes a schedule of uniform rates for the consolidated utility system. By its Application, the Company proposes that a uniform system will reduce confusion and further that the Company does not need separate rate schedules of rates for each system as the Company does not expect its cost of service to vary significantly among the systems. The Company proposes to increase its BFC to \$20.00 per month and to increase the Commodity charge to \$2.60 per 1,000 gallons.

Based on the evidence presented at the hearing, the Commission concludes that a BFC of \$9.00 per month is reasonable. In order to achieve the operating margin established in Finding of Fact No. 14, the Commission approves a commodity charge of \$2.60 per 1,000 gallons.

The rates approved herein shall be effective on the date of this Order for the customers in the Spring Lakes Subdivision.

While the Commission agrees that a uniform system of rates would reduce confusion and error on the part of the Company, the Commission is concerned with the possible rate shock to certain customers who have had low rates. The Commission therefore will allow for these approved rates to be phased-in over a period of time. For the customers in the Brown Borough Subdivision, in the

Mallard Lake Subdivision, on the existing Blue Ribbon system, and on the existing Suburban Water Co. system, the basic facility charge shall be \$7.75 per month, effective with the date of this Order, until July 12, 1996, when the basic facility charge shall increase to the herein approved \$9.00 per month. For the customers of the present Crest Water Company, the basic facility charge shall be \$7.50 per month, effective with the date of this Order. The basic facility charge shall increase for the customers of the present Crest Water Company to \$8.00 per month effective July 12, 1996; then increase to \$8.50 per month effective July 12, 1997; then increase to \$9.00 per month effective July 12, 1998.

Sewer

Blue Ribbon currently charges its customers a flat rate of \$16.00 per month. The present customers of York County Utilities are charged a flat rate of \$20.00 per month. Blue Ribbon proposes to increase the sewer charge systemwide to a flat rate of \$30.00 per month.

To achieve the approved operating margin and level of revenues, the Commission approves an increase to \$25.00 per month. However, to avoid the possibility of rate shock the Commission believes that the rate should be phased-in over a one year period. Therefore, the Commission approves that effective on the date of this Order, the sewer rate for existing Blue Ribbon customers shall increase to \$20.50 per month, and the sewer rate for existing York County Utilities customers shall increase to \$22.50 per month. On July 12, 1996, the sewer rate for all Blue Ribbon customers systemwide shall increase to \$25.00 per month.

Miscellaneous Charges
Tap Fees - Water and Sewer

The Company proposed to increase its water and sewer tap fees from \$300.00 each to \$500.00 for water and \$600.00 for sewer. Mr. Hopper testified that the tap fees are designed to permit the Company to recover the actual costs of installation.

The Commission hereby approves the requested water and sewer tap fee increase. The Commission concludes that the proposed charges of \$500.00 for water tap fee and \$600.00 for sewer tap fee are reasonable.

Reconnect Fee - Water

The Company proposed to maintain its reconnect fee for water at \$35.00. While this charge remains the same for current Blue Ribbon customers, it is an increase or a new charge for other customers. By its Application, the Company states that the reconnection fee is designed to permit the Company to recover actual costs of reconnection.

The Commission finds the \$35.00 reconnect fee for water to be reasonable and approves the fee for the Blue Ribbon system.

New Customer Fee - Water

The Company also proposed to maintain its current new customer account fee for water customers at \$25.00. This fee is a one-time charge to help defray the set-up costs of initiating service. The Commission finds the Company's new customer fee to water reasonable and approves the fee for the Blue Ribbon system.

Late Charge Notice Fee - Sewer

The Company proposed to increase the late charge notice fee for sewer from \$2.00 to \$6.00. The Commission finds the proposed

increase reasonable to defray administrative costs and hereby approves the \$6.00 late charge notice fee for sewer.

The Commission finds and concludes that the rates and charges approved herein, and the schedule of implementation of these rates, achieve a balance between the interests of the Company and those of the customers. These rates and charges result in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

The Commission is aware that in several instances the Company has charged unapproved rates. In some instances, the unapproved rates were charged pursuant to contracts between the Company and the customers, and the contracts were not approved by the Commission. In other instances, the unapproved rates were charged in error. The Commission has removed these unapproved rates from test year revenues for ratemaking purposes. The Commission will not, in this instance, require the Company to make refunds. However, the Commission does admonish the Company to only change approved rates in the future.

IT IS THEREFORE ORDERED THAT:

1. Blue Ribbon's acquisition of York County Utilities, Crest Water Company, Spring Lakes Estates Water Systems, and Suburban Water Company is approved. Also, Blue Ribbon's requested extension of service area to include Mallard Lakes Subdivision and Brown Borough Subdivision is approved.

2. The schedule of rates and charges as proposed by the Company are found to be unreasonable and are hereby denied.

3. The schedule of rates and charges attached hereto as Appendix A are hereby approved for service rendered on or after the date of this Order. The schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.

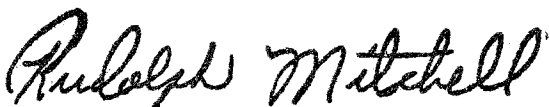
4. Should these schedules not be placed in effect until three (3) months from the date of this Order, the schedules shall not be charged without written permission from the Commission.

5. The Company shall maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities, as adopted by this Commission.

6. The Commission strongly encourages the Company to implement the customer advisory board about which the Company testified at the hearing. The Company is also put on notice that the Commission will monitor the Company's progress in becoming more responsive to customer complaints.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


CHAIRMAN

ATTEST:


Deputy Executive Director

(SEAL)

APPENDIX A

BLUE RIBBON WATER CORP.
P. O. BOX 3150
(803)329-5061
ROCK HILL, SC 29730

FILED PURSUANT TO DOCKET NO. 93-636-W/S ORDER NO. 95-1330
EFFECTIVE DATE: JULY 12, 1995

SCHEDULE OF RATES AND CHARGES

WATER *

Base rate	-	\$ 9.00	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.

RATES ARE TO BE PHASED IN AS FOLLOWS:

Springlake Estates Water Systems			
Effective July 12, 1995	-	\$ 9.00	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.

Blue Ribbon Water Corp. (existing customers prior to
acquisitions and extensions of service areas)
Brown Borough Subdivision
Mallard Lake Subdivision
Suburban Water Co.

Effective July 12, 1995	-	\$ 7.75	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.
Effective July 12, 1996	-	\$ 9.00	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.

Crest Water System			
Effective July 12, 1995	-	\$ 7.50	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.
Effective July 12, 1996	-	\$ 8.00	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.
Effective July 12, 1997	-	\$ 8.50	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.
Effective July 12, 1998	-	\$ 9.00	monthly
Commodity charge	-	\$ 2.60	per 1,000 gal.

SEWER *

Flat Rate	-	\$ 25.00	monthly
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THE SEWER RATES ARE TO BE PHASED IN AS FOLLOWS:

Blue Ribbon Water Corp.			
Effective July 12, 1995	-	\$20.50	monthly
Effective July 12, 1996	-	\$25.00	monthly

York County Utilities			
Effective July 12, 1995	-	\$22.50	monthly
Effective July 12, 1996	-	\$25.00	monthly

* These rates apply only to the service being received
(water, sewer, or both).

OTHER CHARGES

Tap Fee Water	-	\$500.00
Tap Fee Sewer	-	\$600.00
Reconnect Fee Water	-	\$ 35.00
New Customer Fee Water	-	\$ 25.00
Late Charge Notice Fee		
Sewer	-	\$ 6.00